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**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**

Application of Pacific Gas and Electric  
Company for a Limited Capital Structure  
Adjustment

(U 39 M)

Application No. 24-08-\_\_\_\_\_

**APPLICATION OF PACIFIC GAS AND ELECTRIC COMPANY FOR A  
LIMITED CAPITAL STRUCTURE ADJUSTMENT**

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## **I. INTRODUCTION**

Pacific Gas and Electric Company (PG&E or the Company) files this Application seeking a limited adjustment permitting it to exclude certain charges that reduce equity and certain categories of long-term debt from its Rule IX-B capital structure calculation requirements adopted by the California Public Utilities Commission (the Commission or CPUC) in Decision (D.) 96-11-017 for PG&E and D.06-12-029 for all California's major energy utilities. As further explained below, PG&E's request has two parts. First, consistent with D.23-08-031 which granted a similar request by Southern California Edison Company (SCE), PG&E requests a temporary adjustment allowing it to exclude charges associated with payments to resolve claims arising from the Kincadee wildfire event, as well as long-term debt associated with costs arising from both the Kincadee and Dixie wildfire events. PG&E seeks this adjustment while cost recovery matters related to these wildfire events remain unresolved, and only for the amount of long-term debt equivalent to the costs to resolve Kincadee and Dixie claims not covered by insurance, recovered through FERC transmission formula rates, or reimbursed through the Wildfire Fund established by Assembly Bill (AB) 1054 (Wildfire Fund). Second, PG&E also seeks an adjustment to exclude an interest-free loan of up to an aggregate total of \$1.4 billion from the California Department of Water Resources (DWR), provided in connection with a United States Department of Energy (DOE) Civil Nuclear Credit Program award (DOE Award), to support PG&E's license extension and continued operation of Diablo Canyon Nuclear Power Plant (DCPP). This loan amount is, to the extent not repaid from funds from the DOE Award or excess market revenues from the last year of Diablo Canyon operations, fully forgivable based on PG&E's anticipated future performance, and otherwise contains no general repayment obligation on behalf of PG&E. PG&E is further prohibited from seeking cost recovery for any expenses paid with loan proceeds. Despite these terms and anticipated forgiveness, the DWR

Loan is currently treated as debt on PG&E's books under Generally Accepted Accounting Principles (GAAP).

Although PG&E is presently required to account for the charges associated with the costs to resolve the Kincade claims as a reduction in equity and is also required to record both the long-term debt used to pay the liabilities from the Kincade and Dixie events and the DWR Loan as debt under GAAP, neither the charges nor the loans will finance assets in rate base. Accordingly, the reduction in equity resulting from the Kincade charges, and the long-term debt allocated to the costs to resolve the Kincade and Dixie claims and the DWR Loan should be excluded for purposes of calculating compliance with PG&E's Rule IX-B capital structure requirements.

PG&E's request is consistent with Commission precedent and the guiding principles behind Rule IX-B. The Commission adopted Rule IX-B to insulate investor-owned utilities (IOUs) from risky activities undertaken by affiliated entities such as holding companies, while expressly acknowledging the potential need for flexibility provided in application of Rule IX-B in response to adverse financial events. And in a series of prior decisions, first in D.20-05-005 (with respect to both PG&E and SCE), and then again in D.23-08-031, the Commission has recognized that the accounting impact of charges, long-term debt and similar liabilities that do not finance assets in the rate base are properly excluded from the Rule IX-B while potential cost recovery proceedings have not been initiated, because they can result in the issuance of unnecessary and expensive equity to offset charges and long-term debt that (as explained below and in PG&E's accompanying testimony) are subject to potential recovery or forgiveness in the future. Granting PG&E a limited adjustment for purposes of Rule IX-B compliance with respect to these specific categories of long-term debt and related net charges to equity provides the

financial flexibility intended by the Commission in adopting Rule IX-B, and will more accurately translate PG&E's GAAP financials to reflect the capital structure that finances its rate base assets and operations for regulatory compliance purposes.

## **II. THE RULE IX-B CAPITAL STRUCTURE CONDITION**

The regulatory capital structure of an investor-owned utility (IOU) is the proportional authorization of shareholders' equity and debt that comprise a company's long-term financing. For PG&E, long-term debt, preferred equity, and common equity are the authorized components of its regulatory capital structure. Short-term debt financing is not included in the calculation of PG&E's capital structure. Because the level of financial risk that a utility faces is determined in part by the proportion of its debt to permanent capital, or leverage, the Commission ensures that a utility's adopted equity ratios is sufficient to maintain reasonable credit ratings and attract capital while also ensuring there are adequate ratepayer protections regarding the costs of the components of capitalization. The Commission has authorized a minimum common equity ratio of 52 percent on average for PG&E (and 47.5% long-term debt and 0.5% preferred equity).<sup>1</sup>

In Application (A.) 19-02-016, PG&E previously sought approval from the Commission to waive the capital structure requirements of Rule IX-B, in light of the significant reduction in its equity ratio caused by non-cash net charges recognized in its contemporaneous Securities and Exchange Commission (SEC) filings as a result of 2017 and 2018 wildfire events. At that time, PG&E indicated that it expected a further resolution of capital structure-related issues in connection with the then-active proceeding before the Commission related to PG&E's Plan of Reorganization (POR) (I.19-09-016). The Commission granted this request, finding that the waiver would not harm the public or PG&E's customers because those non-cash net charges did

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<sup>1</sup> The Commission approved this equity ratio for PG&E most recently in D.22-12-031.

not impact how PG&E's existing assets are financed, and indicated that it would further address PG&E's capital structure in I.19-09-016.

PG&E's POR called for the issuance of significant amounts of new debt as well as new equity, including \$6 billion in temporary utility debt issued to pay wildfire claims costs at bankruptcy emergence (the Temporary Utility debt). PG&E indicated that it would be in compliance with its authorized ratemaking capital structure upon emergence from bankruptcy if the Commission approved the specific adjustments requested by PG&E or, alternatively, issued PG&E a waiver from its authorized capital structure. The Commission's decision approving the POR granted PG&E a five-year waiver from compliance with its authorized capital structure (POR Waiver), on the "expect[ation] PG&E [will] expeditiously pay down Temporary Utility debt over the projected five-year period and regain a closer alignment between aggregate utility debt and the amount of recoverable utility debt."<sup>2</sup> As set forth in that decision, the POR Waiver "applies only to the financing in place upon PG&E's exit from bankruptcy."<sup>3</sup>

Consistent with the Commission's expectation and PG&E's commitments, PG&E has expeditiously paid down the Temporary Utility debt during the five-year waiver period. In 2022, PG&E completed the securitization of \$7.5 billion in 2017 wildfire claims costs authorized by the Commission in D.21-05-015, issuing two series of securitized debt, \$3.6 billion in May 2022 and \$3.9 billion in July 2022. PG&E used the proceeds from these issuances to retire \$5 billion of the Temporary Utility debt, and to pay, or refund debt that paid, \$1.35 billion in deferred payments to the Fire Victim Trust. In December 2023, PG&E retired the remaining \$1 billion of

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<sup>2</sup> D.20-05-053 at 84.

<sup>3</sup> *Id.*

Temporary Utility debt.<sup>4</sup> Thus, the POR Waiver has served its purpose: PG&E has de-leveraged since emerging from bankruptcy, and here PG&E is not requesting an extension of the POR Waiver under D.20-05-053.

Consistent with the relief granted to SCE in D.23-08-031, PG&E's requested adjustment here applies only to specific charges to equity and debt associated with claims and related costs paid and obligations undertaken after PG&E exited from bankruptcy, and does not concern the previously authorized debt for which the POR Waiver was provided. Thus, this request does not implicate the Commission's direction to "include a deleveraging proposal to reduce non-traditional utility debt over time" in the event that PG&E required an extension of the POR Waiver beyond the five years authorized in D.20-05-053.<sup>5</sup> Moreover, such a "deleveraging plan" would make little sense in light of the circumstances presented here. PG&E anticipates that the DWR Loan will be repaid in full through DOE funding or forgiven by the DWR across DCP's license extension period, and if the Commission were to authorize cost recovery for Dixie and Kincade-related costs in future Commission proceedings, amounts recovered in rates would be used to retire the debt issued to finance those costs in the interim.

As further discussed below, PG&E seeks an adjustment with respect to charges and long-term debt arising only from PG&E business operations unrelated to the financing of rate base assets and the requested relief is consistent with the Commission's decisions permitting similar exclusions for SCE in D.23-08-031, and for PG&E and SCE in D.20-05-005. Because the full amount of wildfire-related debt for which PG&E seeks an adjustment is subject to potential cost recovery, deferring a final determination on addressing these debt and equity charges for

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<sup>4</sup> Advice Letter 4844-G/7104-E (providing fourth annual update on PG&E's Capital Structure to the Commission).

<sup>5</sup> D.20-05-053 at 84-85.

regulatory capital purposes appropriately balances Rule IX-B's intent with the timing realities of the cost recovery process. Similarly, the DWR Loan is forgivable, does not contain a general repayment obligation for PG&E, is subject to anticipated repayment primarily from the DOE Award, and will not be the subject of cost recovery proceedings. Because it lacks the characteristics of long-term debt presumed by Rule IX-B, the Commission should grant PG&E's request for an adjustment permitting exclusion of the DWR Loan balance across DCP's remaining operating period.

### **III. THE PROPOSED ADJUSTMENT IS NARROW AND EXCLUSIVELY FOR ITEMS THAT DO NOT FINANCE RATE BASE ASSETS**

PG&E seeks Commission approval of an adjustment permitting it to exclude from its regulatory capital structure calculations one type of equity charge and two types of long-term debt. Neither the charges nor the debt finance rate base assets, and each of these items is subject to potential cost recovery, repayment, or loan forgiveness. Thus, requiring PG&E to issue offsetting equity to remain compliant with Rule IX-B would reduce PG&E's financial flexibility and potentially harm ratepayers by forcing PG&E to issue unnecessary equity. If future cost recovery proceedings are then resolved in PG&E's favor, and the full balance of the DWR Loan is repaid through DOE funding or otherwise forgiven by the DWR, as PG&E anticipates, it could also ultimately be expensive for PG&E to redeem in the future.

#### **A. PG&E's Wildfire Claims**

PG&E requests an adjustment for certain charges reflecting expenses incurred to resolve claims arising from the Kincadee wildfire event, as well as debt previously issued and expected to be issued in the future to finance the payment of claims associated with the Kincadee and Dixie wildfire events. The requested exclusions relate to costs to resolve claims not covered by either insurance or by the Wildfire Fund, which provides potential coverage for wildfire claims in



excess of \$1 billion for any specific year. In D.23-01-005, the Commission approved PG&E's agreement to self-insure all third-party wildfire claims of less than \$1 billion (the Wildfire Fund threshold) for the current general rate case period.

The total amount of claims costs that PG&E requests be excluded from long-term debt is also net of the FERC jurisdictional portion of allocated costs. PG&E recovers in FERC transmission formula rates a portion of costs for Dixie and Kincade. The FERC jurisdictional portion is determined by applying the jurisdictional allocation factors in effect at the times the costs are incurred. PG&E recovers the FERC jurisdictional portion through its FERC formula rate, which means that such amounts do not need to be financed with long-term debt. Nevertheless, the amounts recovered in the FERC formula rates are subject to refund based on the outcome of future FERC proceedings regarding those costs. As of June 30, 2024, the total amount of FERC-allocated costs associated with Kincade and Dixie, based on the applicable jurisdictional percentages, is approximately \$323 million. If this application is granted, PG&E will adjust the Dixie and Kincade debt portion of its regulated capital structure for purposes of Rule IX-B by (1) determining the total amount of claims costs PG&E has recorded as of the applicable date in accordance with GAAP, (2) subtracting the amounts recovered via insurance and the Wildfire Fund, (3) subtracting the FERC jurisdictional portion of the costs recovered in rates, applying the jurisdictional allocation factors in effect at the times the costs were incurred, and (4) subtracting the remainder from its long-term debt outstanding.

As of June 2024, PG&E has paid a total of \$611 million towards uninsured and non-Wildfire Fund claims arising from the Kincade and Dixie wildfire events, of which \$334 million represents costs to resolve Kincade claims and \$277 million represents costs to resolve Dixie claims, each net of amounts recovered in FERC transmission formula rates. PG&E requests an

adjustment permitting the exclusion from the calculation of the long-term capital structure for purposes of Rule IX-B of (1) \$542 million in net after-tax charges to equity taken as a result of costs incurred and expected to be incurred to resolve claims arising from the Kincade wildfire event<sup>6</sup>, and (2) \$611 million in long-term debt, equal to the payments made to resolve Kincade and Dixie claims not covered by insurance, FERC transmission formula rates, or the Wildfire Fund.

In anticipation of future claims payments, PG&E further requests an exclusion from the calculation of the long-term capital structure for purposes of Rule IX-B of (1) additional charges (if any) to equity for expenses incurred in the future to resolve claims arising from the Kincade wildfire event and (2) additional long-term debt equal to the costs incurred in the future to resolve claims arising from the Kincade and Dixie wildfire events, in each case only to the extent not reimbursed by the Wildfire Fund, FERC transmission formula rates, or insurance. PG&E's existing loss accrual includes approximately \$291 million of estimated costs related to Kincade and Dixie wildfire claims that remain unresolved at the time of this request and are subject to change based upon the development of related proceedings and claims processing.

Thus, in total, PG&E seeks the exclusion of an estimated total of \$542 million in net after-tax charges to equity for the Kincade event, and an estimated total of at least \$902 million in long-term debt (inclusive of the accrual for future claims) equivalent to the total amount of current and expected future Kincade and Dixie claims and related costs not covered by

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<sup>6</sup> As further explained in Chapter 2 of PG&E's accompanying testimony, PG&E does not require an adjustment to equity with respect to Dixie (because PG&E has concluded those costs are probable of recovery and recognized a regulatory asset on its balance sheet). The Dixie regulatory asset (valued at \$489 million as of June 2024) offsets any negative impact to equity from the Dixie claims, but because PG&E must still finance the related claims through incremental additional long-term debt issuance, PG&E requests that the Commission approve an exclusion from the calculation of PG&E's regulated capital structure of long-term debt in an amount equal to the payments to resolve Dixie claims not covered by insurance or the Wildfire Fund.

insurance, FERC transmission formula rates, or Wildfire Fund recovery, in order to fully offset the accounting impact of these claims.<sup>7</sup> As Chapter 2 of PG&E's accompanying testimony explains in more detail, absent this exclusion, in order to maintain compliance with the authorized capital structure, PG&E would be required to raise additional equity to offset long-term debt raised as a result of these claims, even though such equity would not otherwise be necessary to finance rate base assets for PG&E's operations.

Both the Commission and FERC have not yet reviewed or resolved cost recovery matters related to these wildfire events. If the Commission were to authorize recovery of these claims, PG&E would then recover those costs in rates, and pay down the related long-term debt. Similarly, the final outcome of FERC proceedings regarding FERC-allocated costs will provide a final determination regarding allocated amounts previously collected in FERC transmission formula rates. Thus, temporarily excluding charges to equity and an amount of long-term debt equivalent to PG&E's present and future payments to resolve these claims preserves PG&E's financial flexibility and appropriately reserves any final determination of the impact on PG&E's authorized capital structure until after matters related to cost recovery are resolved before the Commission and FERC. This would permit PG&E to propose a final determination regarding the proper financing for these claims and related costs based on the full picture with respect to PG&E's long-term regulatory capital structure.

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<sup>7</sup> PG&E's request includes an amount of debt equivalent to the uninsured and non-Wildfire Fund claims paid for Kincade and Dixie, excluding allocated amounts recovered in FERC transmission formula rates. This amount exceeds the related accounting charge, which includes the associated tax benefits that will not be realized until a future period. PG&E's request is consistent with the relief granted to SCE. *See* D.23-08-031 at 10–13, 16–18. Like SCE, PG&E's current position with respect to other, pre-existing net operating losses (NOLs) (see, e.g., D.21-04-030) means that there will be a multi-year timing delay before PG&E can realize or monetize any NOLs associated with the wildfire claims being financed. Thus, PG&E anticipates that this would not occur until after the term of PG&E's requested adjustment.

As further explained below in Section IV.D, because PG&E's upcoming cost of capital cycle for Test Year 2026 will likely be decided after the POR Waiver expires, but before resolution of any cost recovery proceedings for Dixie and Kincade are definitively resolved, a decision on this Application by mid-2025 will serve ratepayers by providing PG&E with clarity in its financial planning, and reduce costs associated with contingency planning on these issues until complete visibility into their impact on PG&E's long-term capital structure is possible. PG&E therefore requests that the proposed adjustment for the Dixie and Kincade equity and debt exclusions extend through 2028, to permit any further consideration of these issues by the Commission to align with PG&E's anticipated cost of capital application for Test Year 2029. PG&E proposes to file a Tier 1 Advice letter prior to or at the expiration of the proposed adjustment, providing an update on PG&E's regulatory capital structure, and proposing a plan and time frame for final resolution of any related capital structure issues.

**B. The DWR Loan and DOE Award**

On October 18, 2022, PG&E entered into a loan agreement with the DWR related to SB 846, which determined that the continued operation of DCPD was an essential governmental purpose of the state of California, invalidating the Commission's then-operative expiration dates for Units 1 and 2 of DCPD and extending its operating period as permitted by the United States Nuclear Regulatory Commission (NRC) and any other applicable licensing approvals through November 1, 2029 (Unit 1) and November 1, 2030 (Unit 2). SB 846 further appropriated funds to establish a Diablo Canyon Extension Fund to make such funds available to the DWR for loans to PG&E in an aggregate amount of up to \$1.4 billion (minus costs incurred by the DWR for loan administration) to extend the operations of DCPD, with the full loan amount potentially subject to forgiveness and without any general obligation for PG&E to repay the loan principal.

The DWR Loan required PG&E to take all steps necessary to secure any funds available for operation of DCPD from the DOE, as well as any other potentially available federal funds. On January 11, 2024, PG&E entered into a Credit Award and Payment Agreement with the DOE for up to \$1.1 billion as part of the DOE's Civil Nuclear Credit Program (DOE Award). PG&E is required to use funds received from the DOE Award to repay the DWR Loan, which it anticipates will provide funds with which PG&E will repay the significant majority of the loan. PG&E's yearly award amount from DOE will be determined after completion of each year of the award period, based on a number of factors, including the actual costs incurred to extend DCPD's operations.

Pursuant to the loan agreement, the DWR gradually forgives portions of the DWR Loan based on a formula tied to DCPD's energy generation services. This gradual performance-based forgiveness is contingent upon PG&E's ongoing efforts to pursue extension of and continued safe and reliable operation of DCPD. PG&E received the initial \$350 million disbursement of the loan proceeds in 2022 and expects to receive a total of approximately \$1.012 billion in additional funding in 2024. As of June 2024, the total loan outstanding from DWR is \$651 million.

All disbursements from the loan carry a zero percent interest rate. The loan agreement's terms bar PG&E from seeking rate recovery from the Commission, or any other regulatory body for any expenses paid with proceeds from the loan. PG&E's obligation to repay funds received through the loan is limited to any funds received from the DOE Award (discussed below), any other federal funds received for authorized DCPD expenses, and any excess funds remaining in a DCPD balancing account as a result of market revenues exceeding DCPD's costs and expenses in the final year of DCPD's extended operating period. All other loan disbursements or

performance-based disbursements already received by PG&E will be deemed forgiven, except for unspent or uncommitted funds.

Under GAAP, PG&E initially accounts for all disbursements under the DWR Loan as debt. When there is reasonable assurance that a loan disbursement made by DWR will be forgiven, PG&E will recognize (and has recognized) those forgiven amounts as income related to government grants, in the same period where eligible costs were incurred. Since loan issuance in 2022, PG&E recognized in income or deferred \$299 million related to forgiveness of portions of the DWR Loan.

Similarly, once there is reasonable assurance that PG&E will receive funding and comply with the conditions of the DOE Award, PG&E recognizes that funding as income, and records a receivable related to government grants. As of June 30, 2024, PG&E recognized a \$299 million deduction to operating and maintenance expense for income related to government grants for incurred eligible costs to support DCP's extension of operations.

As with the Kincade and Dixie wildfire claims, the DWR Loan does not finance any rate base assets. PG&E is contractually obligated to refrain from seeking cost recovery for any portion of expenses paid with the loan proceeds. PG&E has received, and expects to continue to receive offsetting principal repayments through both performance-based disbursements from both the DOE Award and the DWR as it continues to operate DCP during the license extension. PG&E's obligation to otherwise make any repayment of the DWR loan is limited to the hypothetical contents of a balancing account related to DCP's operating revenue. Thus, an adjustment permitting PG&E to exclude the DWR Loan from its Rule IX-B capital structure calculation will not negatively impact PG&E's financial health or ratepayer interests.

### **C. The Adjustment's Impact on PG&E's Regulatory Capital Structure**

For illustrative purposes, the limited adjustment requested in this application, if applied to PG&E's regulatory capital structure as of June 2024, would have resulted in a 1.2% change to its long-term debt and common equity ratios. As noted previously, this Application does not seek an extension of the POR Waiver provided by the Commission for exclusion of debt issued in connection with PG&E's bankruptcy plan of reorganization.

## **IV. GRANTING PG&E AN ADJUSTMENT ALIGNS WITH RULE IX-B'S PURPOSE AND PRECEDENT**

### **A. Rule IX-B Insulates Utilities From High-Risk Business Activities**

In establishing Rule IX-B, the Commission recognized that its purpose was to “ensure a utility’s financial integrity is protected from the riskier market ventures of its unregulated affiliates and parent holding company.”<sup>8</sup> The charges and debt PG&E proposes to exclude from the capital structure calculation in this application have no relation to those purposes, instead relating to an adverse financial event (the relevant wildfire events), and government funding that is not subject to a general repayment obligation and is functionally equivalent to a grant premised on PG&E’s continued operation of DCP. The Commission has further recognized (in both the wildfire context and otherwise) that where long-term debt “will not be used to finance assets in the rate base,” it can properly be excluded from the Rule IX-B capital structure calculations “without harming ratepayers.”<sup>9</sup> No portion of the long-term debt for which PG&E requests an exclusion here has been or will be used to finance assets in rate base, and the full

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<sup>8</sup> D.20-05-005 at 13 (quoting D.06-12-029 at 2).

<sup>9</sup> D.20-05-005 at 22 (Finding of Fact 16); see also D.12-12-034 at 6 (approving “reasonable” adjustment to SCE’s capital structure to “exclude recorded long-term debt balances supporting nuclear fuel inventories” and noting that they are subject to ERRA proceedings and “excluded from ratemaking rate base”).

amount is subject either to potential cost recovery proceedings, or repayment through DOE funding or forgiveness by the DWR. Thus, exclusion as a regulatory matter is appropriate and consistent with the policy rationales and ratepayer protections embodied in Rule IX-B and the Commission's overall capital structure requirements.

**B. The Commission Previously Provided PG&E and Other Utilities With Waivers Excluding Charges and Related Debt In Similar Circumstances**

PG&E's request is consistent with both prior Commission decisions granting waivers in connection with wildfire liabilities and the underlying rationale adopted by the Commission in granting those requests. Similarly, PG&E's request regarding DWR Loan is justified given that the loan carries no general repayment obligation, PG&E is contractually obligated not to seek recovery of costs paid with its proceeds, and it does not finance PG&E's rate base assets.

For instance, D.20-05-005 concerned requests by both PG&E and SCE for waivers of the capital structure requirement in connection with certain non-cash net charges recognized in their contemporaneous SEC filings as contingent liabilities associated with wildfire events that occurred in 2017 and 2018.<sup>10</sup> SCE's request in particular sought exclusion of non-cash net charges related to contingent liabilities from 2017 and 2018 wildfire events, and also sought to have prospective debt issuances to pay claims arising from the wildfire events excluded from its capital structure compliance calculation.<sup>11</sup> Given the uncertainty regarding when and whether it would be permitted to recover costs associated with the wildfire claims, SCE sought a waiver until the resolution of any cost recovery proceedings regarding the 2017 and 2018 wildfire events. The Commission granted both waiver requests, recognizing the inherently uncertain nature of the contingent liabilities estimated based on resolution of current and future litigation

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<sup>10</sup> D.20-05-005 at 2.

<sup>11</sup> D.20-05-005 at 7-8.



and related issues stemming from the wildfire events, and the non-cash nature of the liabilities in question.<sup>12</sup> The Commission concluded that the waiver would not harm the public or ratepayers, because the non-cash charges did not impact the financing of PG&E or SCE's existing assets in rate base.<sup>13</sup> The Commission also granted SCE's request with respect to debt issued to pay wildfire claims, for a period of two years following the decision (or until a final decision regarding cost recovery for the wildfire claims).

SCE subsequently sought a further extension, which was granted by D.23-08-031. In granting SCE's waiver request for an additional two-year period, the Commission concluded that the relevant facts had not substantially changed, and that continued exclusion of both the increased net non-cash charges associated with wildfire events and debt issued to satisfy related wildfire claims would not harm ratepayers or the public, because that debt will not be used to finance assets in rate base.<sup>14</sup> The Commission found that SCE had shown good cause for not yet filing for cost recovery with respect to the 2017 and 2018 wildfire events given the complexity of the matters and number of plaintiffs involved. The Commission also adopted SCE's position regarding issuance of equity, noting that SCE "provides a compelling argument" regarding the importance of providing utilities with financial flexibility in managing their capital structures to respond to adverse financial events, such as payment of wildfire claims when cost recovery proceedings are still pending.<sup>15</sup> The Commission agreed that this benefited customers, because absent a waiver, SCE could be required to obtain unneeded equity that would be potentially expensive to redeem. The Commission granted SCE an exclusion for two years from the

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<sup>12</sup> D.20-05-005 at 14-18.

<sup>13</sup> D.20-05-005 at 16-17.

<sup>14</sup> D.23-08-031 at 9-10.

<sup>15</sup> D.23-08-031 at 9.

issuance of the decision or until the Commission makes a determination on SCE's cost recovery for the 2017 and 2018 wildfire events.<sup>16</sup> The Commission further instructed SCE to submit a Tier 1 Advice letter within 90 days of the final determination on cost recovery, indicating that it had either returned to its authorized capital structure, or proposing a plan and time frame for returning to compliance.

**C. PG&E's Application Applies Solely to Long-Term Debt and Equity Charges That Do Not Impact Its Financing of Current Assets in the Rate Base**

The Commission's rationale in repeatedly permitting SCE to exclude wildfire-related net charges and long-term debt applies with equal force to PG&E's request here. Absent approval of the requested adjustment, the net after-tax charge to equity and additional long-term debt incorporated into PG&E's capital structure in connection with the Kincade and Dixie wildfire claims or the DWR Loan would require PG&E to raise corresponding equity to remain compliant with Rule IX-B. Acquiring new, permanent equity capital to offset long-term debt may not be in the best interests of PG&E's customers. In the current financial climate, PG&E would be issuing equity at a significant discount relative to historical levels. Following resolution of cost recovery matters related to Dixie and Kincade with the Commission and FERC, and satisfaction of the DWR Loan, PG&E may ultimately have extraneous equity issued to comply with Rule IX-B, that will be expensive to redeem in the future.

Moreover, the timing issue with respect to Kincade and Dixie debt incurred prior to cost recovery is unlikely to recur. In D.23-01-005, the Commission approved PG&E's proposal to self-insure costs below the \$1 billion Wildfire Fund threshold. Coupled with PG&E's ability to access the Wildfire Fund for claims above \$1 billion, PG&E is unlikely to face a mismatch

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<sup>16</sup> D.23-08-031 at 17-18.

between long-term debt and cost recovery proceedings related to any future fires so long as those mechanisms remain in place.

As the Commission noted in approving SCE's recent application, the issuance of unnecessary equity reduces a utility's financial flexibility while cost recovery issues remain unresolved and could be expensive to redeem in the future, and preserving that flexibility "is in the public interest."<sup>17</sup> In light of the fact that this net charge to equity and long-term debt will not finance rate base assets, the Commission should grant PG&E that same flexibility, and permit a limited adjustment for the net charge to equity and both categories of long-term debt identified in the Application.

#### **D. Specific Scope of Requested Adjustment**

Consistent with AB 1054, PG&E expects that any future proceedings seeking recovery of costs related to the Dixie and Kincadee wildfire events will likely take approximately twelve to eighteen months (in addition to the additional time necessary to resolve claims still pending).<sup>18</sup> The POR Waiver will expire in June 2025, and PG&E's next planned cost of capital proceeding (for Test Year 2026) will likely be decided on after the POR Waiver expires, but prior to final resolution of potential cost recovery proceedings for Dixie and Kincadee that would provide clarity regarding their overall impact on PG&E's balance sheet. A ruling by the Commission in advance of Test Year 2026 would give PG&E additional clarity in its financial planning going into that upcoming cost of capital cycle, and permit PG&E to reduce management and

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<sup>17</sup> D.23-08-031 at 9.

<sup>18</sup> See Public Utilities Code § 1701.8(b)(4)(B)-(C) (requiring a proposed decision within twelve months of the filing date of a catastrophic wildfire proceeding, with an extension of up to six months permitted with good cause).

administrative time spent on contingencies related to Rule IX-B issues prior to cost recovery resolution.

PG&E therefore requests that the proposed adjustment for the Dixie and Kincade equity and debt exclusions extend through year-end 2028, to permit any further consideration of these issues by the Commission to align with PG&E's anticipated cost of capital application for Test Year 2029. Consistent with SCE, PG&E proposes to file a Tier 1 Advice letter prior to or at the expiration of the temporary adjustment, providing an update on PG&E's regulatory capital structure, and proposing a plan and time frame for final resolution of any related capital structure issues. As explained above and in PG&E's testimony, the DWR Loan will not be subject to cost recovery proceedings because PG&E may not seek cost recovery of expenses paid with its proceeds. PG&E therefore requests that the exclusion be granted for the full duration of the DWR Loan, which it anticipates will not materially impact its regulatory capital structure after year-end 2028, when all funds received from the DOE Award will have been fully contributed to the DWR Loan by PG&E.

**V. INFORMATION REQUIRED BY THE COMMISSION'S RULES OF PRACTICE AND PROCEDURE**

**A. Requirements of CPUC Article 2 (Applications Generally)**

**1. Statutory and Other Authority (Rule 2.1)**

This Application is made pursuant to Section 701 of the Public Utilities Code, the Commission's Rules of Practice and Procedure, and prior decisions, orders, and resolutions of the Commission, including D.96-11-017, D.06-12-029, D.20-05-005, and D.23-08-031.

**2. Legal Name and Principal Place of Business (Rule 2.1(a))**

Since October 10, 1905, Pacific Gas and Electric Company has been an operating public utility corporation, organized under California law. It is engaged principally in the business of

furnishing electric and gas service in Northern and Central California. PG&E's principal place of business is 300 Lakeside Drive, Oakland, CA 94612, and its attorney contact is John P. Perkins III.

**3. Correspondence and Communications (Rule 2.1(b))**

Communications regarding this Application should be addressed to:

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Lauren Hudson  
Pacific Gas and Electric Company  
Regulatory Affairs, Case Management  
300 Lakeside Drive  
Oakland, CA 94612  
Telephone: (925) 701-1021  
E-Mail: lauren.hudson@pge.com

**4. Articles of Incorporation (Rule 2.2)**

PG&E is, and since October 10, 1905, has been, an operating public utility corporation organized under California law. It is engaged principally in the business of furnishing electric and gas services in California. A certified copy of PG&E's Amended and Restated Articles of Incorporation, effective June 22, 2020, was filed with the Commission on July 1, 2020, with PG&E's Application (A.) 20-07-002. These articles are incorporated herein by reference.

**5. Proposed Categorization (Rule 2.1(c))**

PG&E proposes that this Application be categorized as a ratesetting proceeding. Although this proceeding does not clearly fall within the "ratesetting" category (because it does not "set or investigate" rates), PG&E proposes that the Commission categorize it as "ratesetting"

within its authority under Rule 7.1(e)(2), because no other category fits this Application more closely.

**6. Need for Hearings (Rule 2.1(c))**

PG&E does not anticipate that evidentiary hearings will be necessary.

**7. Issues to Be Considered (Rule 2.1(c))**

The issue presented is whether the Commission should grant an adjustment (i) permitting PG&E to exclude the net charge to equity associated with the settlement of Kincade claims and an amount of long-term debt equivalent to the net costs associated with those claims; (ii) permitting PG&E to exclude an amount of long-term debt equivalent to the net costs associated with settlement of Dixie claims; and (iii) permitting PG&E to exclude the DWR Loan from its long-term debt, for purposes of its regulatory capital structure calculations to determine compliance with Rule IX-B.

**8. Proposed Schedule (Rule 2.1(c))**

PG&E has filed this application based on the Commission's direction in D.96-11-017. PG&E does not believe that hearings will be needed on this Application due to the nature of the relief sought, and believes that the issues raised by this application (which the Commission has addressed repeatedly in the past) and the temporary nature of the adjustment PG&E requests support a relatively simple schedule. Because the POR Waiver will expire in June 2025, a proposed decision by late February 2025 would facilitate orderly financial planning by PG&E, and avoid costs associated with contingency planning if issued at or after expiration of the POR Waiver. Based on the August 5, 2024 filing date, PG&E proposes the following schedule for processing this Application:

<b>Activity</b>	<b>(Proposed) Date</b>
Application Filed	August 5, 2024
Protests or Responses	September 4, 2024
Reply to Protests or Responses	September 24, 2024
Pre-Hearing Conference (suggested)	October 14, 2024
Scoping Memo	October 21, 2024
Proposed Decision	February 21, 2025
Final Approved Decision	Commission Voting Meeting on a date no less than 30 days from February 14, 2025

## **9. Relevant Safety Considerations (Rule 2.1(c))**

In D.16-01-017, the Commission adopted an amendment to Rule 2.1(c) requiring utilities’ applications to clearly state the relevant safety considerations. The Commission has previously explained that the “[s]afe and reliable provision of utilities at predictable rates promotes public safety.”<sup>19</sup> Safety is the highest priority for PG&E in all its activities. PG&E has considered safety in connection with this Application and the proposed adjustment. PG&E believes this Application does not have implications for public safety.

## **10. Service List**

The official service list has not yet been established in this proceeding. PG&E is serving this Application and supporting testimony on the Commission’s Public Advocates Office, as well as the service list established by the Commission for A.19-02-016 (PG&E’s capital structure waiver application); and A.22-04-008 (PG&E’s 2023 cost of capital application).

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<sup>19</sup> D.14-12-053 at 12-13.

## VI. CONCLUSION

PG&E is ready to proceed with its showing in support of its proposals set forth herein.

PG&E respectfully requests that the Commission issue an appropriate order:

1. Granting PG&E a limited capital structure adjustment, with respect to the charge to equity associated with Kincade claims and the long-term debt associated with Dixie and Kincade claims identified in this application until year-end 2028.
2. Granting PG&E a limited capital structure adjustment, with respect to the long-term debt associated with the DWR Loan for the duration of that loan.
3. Granting PG&E such other relief as the Commission finds to be just and reasonable.

Respectfully submitted,

/s/ John P. Perkins, III

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Attorneys for  
PACIFIC GAS AND ELECTRIC COMPANY

Dated: August 5, 2024



## **VERIFICATION**

I, the undersigned, say:

I am an officer of PACIFIC GAS AND ELECTRIC COMPANY, a corporation, and am authorized to make this verification for that reason; I have read the foregoing “Application of Pacific Gas and Electric Company for a Limited Capital Structure Adjustment” and I am informed and believe the matters therein are true and on that ground I allege that the matters stated therein are true.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed this 5<sup>th</sup> day of August 2024.

*/s/ Margaret K. Becker*

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MARGARET K. BECKER  
Vice President and Treasurer  
Pacific Gas and Electric Company